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JAN 29 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
	)	
Transport Rate Structure and Pricing	)	CC Docket No. 91-213
	)	
Usage of the Public Switched Network by Information Service and Internet Access Providers	)	CC Docket No. 96-263
	)	

COMMENTS OF PUERTO RICO TELEPHONE COMPANY

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SUMMARY

Puerto Rico Telephone Company ("PRTC") sets forth two principles to which the Commission should adhere as it considers access charge reform for rate-of-return carriers, to a limited extent in this proceeding and ultimately in a separate proceeding: (1) access charge reform must not preclude recovery of costs incurred by incumbent local exchange carriers ("ILECs") under the existing regulatory regime, and (2) access charge reform must give ILECs pricing flexibility in offering access services so that they can compete with new entrants that will not be subject to the same level of regulation. The Commission's proposals to set access charges consistent with the way in which it perceives that the ILEC incurs or has incurred the costs for providing the service are intended to adapt the access charge regime to the competitive environment. However, unless the principles enumerated here are incorporated into this proceeding, the actual effect of reform may be to deny ILEC recovery of investments to such a degree as to justify a claim for the taking of property without just compensation.

In this proceeding, the Commission intends to apply reforms for transport access charges, including the transport interconnection charge ("TIC"), to rate-of-return carriers. However, the substantive reforms that have been proposed for all ILECs should only be implemented if they adequately recover the costs related to transport. Specifically, the TIC should not be

applied to the end office minutes — away from where the costs are incurred, but instead should be attributed across switched transport services.

The Commission also has requested comments on "transition issues" regarding the effect of universal service reforms and the recovery of remaining embedded costs. Specifically, a universal service support payment should not result in a decrease in interstate access charges unless it is specifically intended to replace identified means of cost recovery that had previously been afforded by access charges. In addition, the Commission has recognized that a shortfall may result from access charge reform if access charges are based on the forward-looking, economic cost. As a means of addressing this expected revenue shortfall, the Commission may ultimately have to establish a regulatory fund dedicated to the recovery of those costs.

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COMMENTS OF PUERTO RICO TELEPHONE COMPANY

Puerto Rico Telephone Company ("PRTC"), by its attorneys, hereby submits comments in the above-captioned proceeding regarding reforms to the Commission's rules on access charges as presented in its recent Notice of Proposed Rulemaking.[1]

I. INTRODUCTION

The Commission has embarked on the third of three dramatic regulatory reforms that will shape the telecommunications industry for a number of years. Having already implemented rules intended to introduce competition into the local exchange service market[2] and in the midst of its consideration of the Federal-

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[1/] In the Matter of Access Charge Reform, CC Docket No. 96-262, Notice of Proposed Rulemaking, FCC 96-488 (rel. December 24, 1996).

[2/] Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, CC Docket No. 96-98, First Report and Order, FCC 96-325 (rel. August 8, 1996), recon. 11 FCC Rcd (continued...)

State Joint Board's Recommended Decision for universal service reforms,[3] the Commission has now turned to revising access charge rules. The combined effect of these proceedings has been to limit methods of cost recovery that traditionally have been available to incumbent local exchange carriers ("ILECs"). No mechanism has been proposed that meaningfully addresses the current situation in which a combination of far-reaching regulatory changes in the telecommunications industry have foreclosed long recognized and prescribed methods of cost recovery for ILECs. Given the fact that "[t]here is no precedent in American economic history approaching the size, pervasiveness, speed, and overall importance to the economy of the changes proposed in these three proceedings,"[4] the combined effect of these changes on carriers that have adhered to the Commission's regulatory mandates must be considered. For example, the Commission mandated that PRTC implement equal access and thus

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2/ (...continued)
13042, petition for review pending and partial stay granted, sub nom. Iowa Util. Board et al. v. FCC, No. 96-3321 and consolidated cases (8th Cir. Oct. 15, 1996), partial stay lifted in part, Iowa Util. Board et al. v. FCC, No. 96-3321 and consolidated cases (8th Cir. Nov. 1, 1996).

3/ Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Comments filed December 19, 1996 and Reply Comments filed January 10, 1997. Pursuant to section 254(a)(2), the Commission must complete the universal service proceeding by May 8, 1997. 47 U.S.C. § 254(a)(2).

4/ Larry F. Darby, "Access Charge Reform: Will it Influence Investor Incentives?" Communications Business and Finance, vol. 4, no. 1 (January 20, 1997) at 8-9.

incur the substantial expense of the necessary network upgrades.[5] Yet costs of this kind may not be fully recovered under a forward looking cost approach. This problem is not limited to the example of equal access because the local network is configured in many respects to meet regulatory requirements of one kind or another.

In its Notice of Proposed Rulemaking ("NPRM"), the Commission appears to be considering options to mitigate the loss of cost recovery that may result from this proceeding. By revising access rates, both to reflect the Commission's opinion as to how the underlying costs are incurred and to permit rates to be set in the market, cost recovery will be jeopardized. The importance of the revenues generated by these charges must not be underestimated. Access charges constitute approximately 25 to 33 percent of local exchange carrier regulated revenues, industry-wide.[6] Therefore, it is imperative that these regulatory changes are not enacted without regard for the means by which network investments made under prior regulatory dictates will be recovered. To meet this requirement, the Commission's rules must

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5/ Inquiry into Policies to be Followed in the Authorization of Common Carrier Facilities to Provide Telecommunications Service Off the Island of Puerto Rico, 2 FCC Rcd 6600 (1987); see also Puerto Rico Telephone Company Equal Access Conversion Schedule, 5 FCC Rcd 118 (Com. Car. Bur. 1989).

6/ Id. at 8.

ensure that all of the costs at issue are allocated or assigned in a way that permits them to be recovered.

The proposed access charge reforms are grounded in the assumptions that the existing regulatory rate structures "create incentives for IXCs to bypass the LEC switched access network"[7] and result in access rates exceeding the "forward-looking economic cost."[8] While bypass may well be a problem for the ILEC industry, the solution surely cannot be to starve it of its revenues. Pricing flexibility rather than denial of cost recovery would be a preferred approach to bypass.

With regard to "forward looking cost," while it may be a useful concept for economic analysis, it is only the latest in a series of economic costing concepts that have received favor.[9]

7/ NPRM at ¶ 42.

8/ See id. at ¶¶ 43-45.

9/ Parties have "questioned the appropriateness of the LRIC method as a basis for ratemaking" since at least 1975. See AT&T, Charges, Regulations, Classifications and Practices for Voice Grade/Private Line Service, 55 FCC 2d 224, 234 (1975), recon. 58 FCC 2d 362 (1976), aff'd sub nom. Commodity News Services, Inc. v. FCC, 561 F.2d 1021 (D.C. Cir. 1977). The Commission in fact had concluded that certain incremental cost methodologies are "inadequate to allow us to fulfill our regulatory obligations" to ensure that rates are just and reasonable. AT&T, Manual and Procedures for the Allocation of Costs, Notice of Proposed Rulemaking, 78 FCC 2d 1296, 1302-1303 (1980) (describing finding in Revisions of Tariff FCC No. 260 Private Line Services, Services 5000 (TELPAK), 61 FCC 2d 587, 629 (1976), aff'd, 70 FCC 2d 616 (1978) ("Private Line Services")). The Commission has also found that "incremental analysis is not designed to address what is to be done with 'unallocable' common or fixed costs . . . . Clearly, costs which remain unattributable as a result of not (continued...)

The only difference here is that the Commission, rather than an interested pleader, has proposed using the concept. The problem is that book costs remain the economic standard by which ILECs and practically all other businesses are evaluated for investment, taxation, lending, bankruptcy, and other significant business purposes. Book costs are the standard by which the success or failure of the enterprise will ultimately be judged.

Carriers like PRTC have followed the Commission's rules in allocating costs to the interstate jurisdiction and setting its access charge rates. The Commission has regulated this process as thoroughly and pervasively as any in its history. However, these same carriers are now faced with potential losses due to unnecessarily abrupt mid-stream changes in those rules, a loss that may amount to an unconstitutional regulatory taking. Indeed, all carriers that will soon be competing with new market entrants — a group not limited to the price cap carriers[10] — will

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[9/] (...continued)
changing in response to alternative rates lie outside the theoretical construct of incremental costing." Private Line Services, 61 FCC 2d at 629.

[10/] PRTC currently is engaged in negotiations for interconnection agreements with a number of companies. The Puerto Rico Telecommunications Regulatory Board has received two requests for arbitration, from Centennial and Lambda. As the Commission has indicated, however, other rate of return carriers may be less likely to be experience impending competition. NPRM at ¶ 52 ("The need for access reform is most immediate for those incumbent LECs that may soon be subject to competition from the availability of unbundled network elements. These are primarily the price cap incumbent LECs. Many, if not all, non-price-cap
(continued...)

need the flexibility to price access charges in order to compete with purchasers of their unbundled network elements. PRTC, a rate-of-return carrier, submits comments in this proceeding to the extent that the Commission has specifically contemplated applying access reforms to rate of return carriers in this proceeding (i.e., for transport). On other matters, it suggests policies that the Commission should consider in framing its specific proposals for rate-of-return carriers.

In this proceeding and the future proceeding to implement similar reforms for rate-of-return companies, the Commission has the ability to implement sensible reforms that acknowledge both the emerging competitive market and the regulatory regime under which ILECs built the very infrastructure that will enable new competitors to operate. Unless costs incurred under the existing regulatory regime are recovered, the Commission will place the burden on the very carriers whose investments and recovery it has directed over years of operation.

II. PROPOSED CHANGES TO THE ACCESS RATE STRUCTURE MUST ENSURE FULL COST RECOVERY AND FACILITATE ILEC FLEXIBILITY IN A COMPETITIVE INTERSTATE ACCESS MARKET

The Commission has proposed a number of reforms to the current Part 69 access rate structure that are intended to set

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[10](...continued)
incumbent LECs may be exempt from, or eligible for a modification or suspension of, the interconnection and unbundling requirements of the 1996 Act.") (footnote omitted).

rates that are congruent with the way in which the ILEC theoretically incurs or has incurred the costs for providing the service. Although most of the reforms are proposed only for price-cap carriers,[11] PRTC urges the Commission to bear in mind two themes when considering similar reforms for rate-of-return carriers. First, full cost recovery is still required. Second, once new entrants begin to provide competitive services, it will be essential that ILECs have the same pricing flexibility that less-regulated competitors will have.

A. Access Charges for Interstate Traffic Carried Across Unbundled Network Elements Should not Be Eliminated

The Commission has tentatively concluded that Part 69 access charges should no longer be applied to unbundled network elements, regardless of whether they have been purchased for local exchange service or exchange access service.[12] The Commission assumes that by paying a "cost-based" rate for the unbundled network element(s), the competing carrier has "already paid for the ability to originate and terminate interstate calls."[13] This assumption is inaccurate. Under the Commission guidelines, the requesting carrier would pay only for the theoretical, forward-looking costs of providing those elements.

11/ The Commission intends to apply to all ILECs any reforms implemented with respect to transport and the transport interconnection charge. NPRM at ¶ 53.

12/ NPRM at ¶ 54.

13/ Id.

Although the Commission views this as the appropriate standard for the pricing of unbundled network elements in the context of local competition pursuant to section 254(d)(1),[14] it can leave the ILEC with unrecovered actual costs.

Sections 251 and 252 of the Communications Act simply do not reach the question of access charges and should not be used to justify a determination not to apply these charges to unbundled network elements when the elements are being used to provide exchange access. Congress implemented sections 251 and 252 to encourage local competition in the local exchange markets, but these provisions do not inform policy judgments to be made with respect to exchange access. Indeed, the Commission's proposal inappropriately favors competitors in the exchange access market who would be relieved from the obligation to pay access charges, whereas the ILEC will be required to recover its book costs either through access or local rate increases. If CLECs may use low-priced unbundled elements to compete with access, the resulting arbitrage market may be quite lucrative but would accomplish nothing to foster a true competitive market. However, as access customers are lost, ILECs will have a reduced customer pool on which to assess these regulated costs, thereby causing an increase in the rates across a smaller customer base. Increased rates will drive additional customers away, and exacerbate the

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14/ This is, however, at issue on appeal before the Eighth Circuit.

disparity between regulated (ILECs) and less-regulated (new entrants) service providers. Even if one accepts that the local competition provisions of the 1996 Act may inform the policies to be followed for access charge reform, creating an artificial access arbitrage market whereby competitors purchase unbundled elements and resell them as access exceeds any reasonable interpretation of these provisions.

Instead, the Commission should require that access charges be assessed on all unbundled network elements used to provide interstate access. Unbundled network elements can be used to provide both local exchange service and exchange access, but these functions must be kept separate in the interest of recovery of costs that have been jurisdictionally separated between intrastate and interstate services by this Commission. Otherwise, ILECs will never recover the full costs of providing a ubiquitous network, upon which the interexchange providers and local telephone consumers depend for their services.

B. Revisions to the Carrier Common Line Charge Should Not Result in an Additional End-User Charge

Under the current Part 69 rules, LECs recover the interstate portion of their common line costs through two mechanisms: the subscriber line charge ("SLC") and the carrier common line charge ("CCL"). Although these charges recover costs for the same facilities, they are assessed in different manners. The end-user pays a flat-rate SLC (or end-user common line charge), and the

IXCs contribute to the remaining costs on a minutes of use basis. According to the Commission, "[t]he current CCL charge has been uniformly criticized by both incumbent LECs and IXCs because it discourages efficient use of the network and encourages uneconomic bypass."[15] Nevertheless, if CCL reform is to be entertained, this must be accomplished without raising the SLC on residential end-users.[16] For PRTC, raising the residential subscriber line charge could have devastating effects on the subscribership level.[17]

The Commission has suggested that continuing with a minutes of use, usage-based rate for recovering a portion of the non-traffic sensitive common line charge will not be sustainable in the competitive marketplace.[18] While a change in the method of loop cost recovery may be reasonable, complete recovery of costs must not be sacrificed for the sake of reform. Therefore, revisions to the CCL that recover the remaining non-traffic sensitive common line costs after collection of the SLC may be

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15/ Id. at ¶ 58. The Commission's view ignores that a heavy user derives far greater economic or social benefit from the use of the line than does the moderate user.

16/ NPRM at ¶ 65 (emphasizing that its proposal "would not affect the current cap of $3.50 on the SLC" to residential customers' primary line and single-line business customers).

17/ See PRTC Comments, CC Docket 96-45 (filed December 19, 1996) at 8-16 (describing the direct correlation between socioeconomic conditions and subscribership levels).

18/ Id. at ¶¶ 57-60.

appropriate, as long as complete recovery of these costs is still permitted.

The Commission has reported a number of proposed reforms in the NPRM, all intended to impose a flat-rate CCL that will recover the line costs that remain after the existing subscriber line charge is applied.[19] To the extent that any of these proposals may be applied to rate-of-return carriers, these carriers should not be required to bill their end-users for the charges in the event that the end-user has not selected a primary interexchange carrier ("PIC"). Under one proposal, the IXC charge would be based on the customers' PICs. In the event that an end user had not selected a PIC, the ILEC would bill the end-user directly.[20] This result is not appropriate because a non-PIC end user may still make interstate toll calls (using dial around numbers), and this proposal would allow the IXC carrying such a call to avoid common line charges.

However, bulk-billing, based on the IXCs' percentage share of the interstate market in the ILECs' (service area), avoids such a result.[21] Under this proposal, the IXCs would still bear their proportionate share of these costs, but on a flat-rate

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19/ Id. at ¶¶ 60-61.

20/ See id. at ¶ 60.

21/ Id. at ¶ 61.

basis. The bulk-bill, to be assessed by the ILEC, would be based on the ILEC's common line revenue requirement.

This approach is preferable to one that would require an ILEC to collect the flat-rate charge directly from the end-user. This is an unacceptable result for two reasons. First, a subscriber that has not designated a PIC should not be charged the flat-rate CCL based on the assumption that he or she has declined to make a PIC selection in order to avoid comparable charges being assessed by the IXC.[22] In Puerto Rico, over 55 percent of the families have incomes that place them below the poverty level,[23] contributing in part to the fact that twenty-five percent of Puerto Rico households do not have basic telephone service. However, given the high number of low-income households, still others subscribe to local service but choose not to subscribe for toll services due to the inability to pay for such calls in addition to local service. Indeed, this subscribership phenomenon is the reason why toll blocking can increase local subscribership.[24] In view of the fact that the Joint Board has recommended that Lifeline support be available

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22/ See id. at ¶ 60.

23/ 1990 Census of Population and Housing, Summary Social, Economic, and Housing Characteristics, PUERTO RICO, 1990 CPH-5-53 (1993) at 191.

24/ See In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Recommended Decision, FCC 96J-3 (rel. November 8, 1996) at ¶ 384.

for toll blocking for low income customers to avoid "involuntary termination of telecommunications services,"[25] it would be illogical to then pass on an additional end user CCL charge to the same customers. Interstate costs should not now be passed through to customers because of their failure to select a PIC to provide a service they cannot afford.

In addition, if the ILEC is required to bill end users without PICs, then it may appear to the subscriber that he or she is being assessed a local service rate increase, when this is a cost that should be incurred by IXCs. The IXCs can then determine whether or not to pass the charge through to the end user and how this charge will be billed. However, if the CCL ultimately is collected based on proportionate IXC PIC assignments, both inequitable results discussed herein easily can be avoided. Charges for those customers without a PIC selection could be attributed across the IXCs providing service in the particular market based upon market share. In this way, the burden of billing an end user for this charge would not fall on the ILEC, but instead, the onus for payment appropriately would be placed on the IXC, which then may decide how best to reflect these costs in its pricing structure.

25/ Id.

C. Any Revisions to Local Switching Charges Should Facilitate ILEC Competition with New Entrants for the Provision of Access Services

The Commission has proposed adjusting the structure for local switching charges to reflect the way in which costs are incurred. Under this proposal, the line port would be assessed on a flat-rate basis because it is dedicated to a line serving a particular carrier. Use of the switch and trunk ports, as shared facilities, would still be charged on a usage-sensitive basis. Thus, the rate structure for this access element would bear a symmetrical relationship with the unbundled switching element rate structure.[26] This arrangement would be appropriate insofar as it may permit the ILEC to price the local switching element in the same manner for interconnection and access services, as long as such a structure in no way precludes complete recovery of the costs and is implemented in anticipation of ILEC pricing flexibility in setting the rates to respond to competitors in the market.

D. Reform of Transport Rates Should Not Entail the Phase-Out of Any Transport Costs

Proposed reforms for the transport element of access charges may be broken down into three categories for the purposes of discussion. The Commission has concluded that the current method of assessing a flat-rate charge for the entrance facilities and

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26/ See Local Competition First Report and Order, CC Docket No. 96-98, Order on Reconsideration, 11 FCC Rcd 13042, 13045-46 (1996).

direct-trunked transport is consistent with the manner in which costs for these dedicated facilities are incurred by the ILEC, and no reform is contemplated.[27] With respect to switched-tandem transport and the transport interconnection charge ("TIC"), the substantive reforms that have been proposed for all ILECs should only be implemented if they adequately recover the costs related to transport. The Commission cannot implement these reforms in the interest of competition without regard for the existing regulatory dictates under which these costs were incurred.

1. Tandem-Switched Transport Should Be Structured to Recover Fully ILEC Costs

The tandem-switched transport includes the cost of the dedicated trunk between the IXC serving wire center and the ILEC tandem switch, and shared facilities connecting the ILEC tandem switch and the ILEC local switch. IXCs currently have a choice of two separate rates for tandem-switched transport: either a flat-rate for the dedicated facility and a usage-based rate from the tandem to the ILEC local switch, or a usage-based rate based upon the airline miles distance between the IXC serving wire center and the ILEC local switch. The IXC can use this choice to avoid compensating the ILEC for its fixed cost incurred in providing the dedicated facility for the IXC to the ILECs' tandem. Any reform of the rates applied for this service should ensure that the IXC pays for the costs of the services it uses,

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[27] NPRM at ¶ 86.

whether on a flat-rate basis for dedicated facilities or on a usage-sensitive basis for shared facilities.

2. The TIC Is Based on Real Costs Incurred For Transport that Must Be Fully Recovered

On remand from the Court of Appeals for the District of Columbia Circuit, the Commission must review the TIC to provide either a cost-based alternative or to explain why it is necessary and desirable to set the TIC on a non-cost-based system.[28] To satisfy the remand order, the Commission is now undertaking to revise the TIC and has stated that its goal is "to establish a mechanism to phase out the TIC in a manner that fosters competition and responds to the court's remand.[29] The Commission may be required to act in response to the Court's remand, but it is under no obligation to phase-out the TIC. Although the Commission's rules have required that the TIC be applied arbitrarily to end office minutes in order to serve regulatory ends related to IXC competition, the TIC in fact covers costs incurred in providing transport, and these costs may not be ignored under the guise of access charge reform.

In the CompTel decision, the Commission reported to the Court that the established rates for direct-trunked transport and tandem-switched transport "recover less than half of the

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28/ Competitive Telecommunications Assoc. v. FCC, 87 F.3d 522, 526 (D.C. Cir. 1996) ("CompTel").

29/ NPRM at ¶ 98.

estimated cost of service for switched access local transport."[30] Although costs had been ultimately reassigned to the TIC,[31] "they are real costs that would not otherwise be recovered."[32] Therefore, the Commission must ensure that whether or not these costs are reassigned, they must still be recovered. Even if they remain part of a TIC or some other labeled charge, they must be recovered, not merely ignored.

Reforming the TIC rate element involves two issues: reallocation and recovery of remaining costs. The Commission has identified possible sources of reallocating some portion of the TIC. The obvious first step is to reincorporate in the tandem switch rate the 80 percent of its costs that had been arbitrarily reassigned to the TIC for recovery. Other reallocations of costs from the TIC are adjusting the tandem-switched transport rates such that all the host-remote costs are recovered and recalculating the tandem-switched transport rate by using actual minutes of use per trunk in lieu of the inflated 9000 minutes of use proxy. However, according to PRTC's initial calculations, a significant amount of transport costs now assigned to the TIC will remain, and these must still be recovered.

30/ CompTel, 87 F.3d at 530.

31/ The TIC was still called the residual interconnection charge (or "RIC") at the time of the Court's review.

32/ CompTel, 87 F.3d at 530.

The Commission must determine how these remaining costs, incurred under the existing regulatory regime, are going to be assigned. Such costs are incurred across the switched transport services, and thus, should be recovered from switched transport customers.

Approximately forty-four percent of PRTC's billed switch access collections are recovered from the TIC. Sudden removal of this cost recovery mechanism could be devastating for the company by itself. However, this loss would be in addition to other losses of cost recovery that have been jeopardized in other proceedings. For example, the impact of this loss would be exacerbated by artificially low rates for unbundled network elements and interconnection and a possible reduction in universal service support. The 1996 Act provides the framework for a deregulatory, pro-competitive telecommunications marketplace, but it does not justify ignoring actual costs incurred under the existing regulatory regime. Indeed, it was under this regime that the ILECs were able to invest in and build the ubiquitous network that today provides the opportunity for competitors also to provide service. Recovery of these costs cannot now simply be ignored for the sake of convenience in constructing a competitive environment that for the time being is based on regulatory fiat rather than the operation of the marketplace. Although the stated goal of the new regulatory regime is competition, the result is to deny ILEC recovery of investments to such a degree that a claim for a taking of property without just compensation is colorable.

III. CHANGES TO EXISTING ACCESS CHARGE REGULATIONS WITHOUT REGARD TO RELATED PROCEEDINGS WILL NOT ADDRESS THE PROBLEM OF COST RECOVERY IN A COMPETITIVE MARKET

The Commission has requested comments on "transition issues" that will affect ILECs facing a new regulatory regime, due to significant changes initiated by the 1996 Act.[33] Specifically, anticipated universal service reform will help determine the extent to which access charge reform will impact ILEC cost recovery. To minimize the effect of either of these factors, the Commission should recognize first that a universal service support payment should not result in a per se decrease in interstate access charges unless it is specifically identified as replacing identified means of cost recovery that had previously been afforded by access charges. PRTC provides comments here to the extent that these issues affect rate-of-return carriers, and thus, may shape the forthcoming access charge reform proceeding.[34]

In the NPRM, the Commission suggests that for rate-of-return ILECs, "interstate costs must be reduced to reflect revenues

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33/ NPRM at Part VII.

34/ Id. at ¶ 52 ("We plan to initiate a separate proceeding in 1997 to undertake comprehensive review of our regulation of rate-of-return incumbent LECs.").

received from any new universal service support mechanism to the extent allocated to the interstate jurisdiction."[35] This supposition is premature because parties have very little information upon which to assess how much former access charge revenues will now be recovered through USF. Nor is specific information expected soon. A Commission decision on the Joint Board's USF Recommended Decision is not anticipated for another three months. Moreover, the Recommended Decision itself provides very little information by which a carrier may be able to determine what its universal service contributions and distributions may be.

Quantifying the effect of access charge reform in relationship to the universal service proceeding would be especially difficult for PRTC. Although serving an insular area, it is not clear whether PRTC will be permitted to base its support requirement on actual costs. Moreover, none of the proxy models that have been studied to date provide results or data related to the estimation of costs in Puerto Rico. Therefore, PRTC has no basis upon which to assess the treatment of proposed interstate cost reductions as a result of shifting revenues to the new universal service fund, because it is currently impossible to assess whether or not any additional revenues are actually forthcoming from the fund. In this regard, the

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35/ Id. at ¶ 246.

Commission needs to ensure that the losses in revenue created by access charge reform will be recovered through the universal service support system in addition to what the universal service support otherwise would be. The reverse — that interstate charges must be decreased by USF support payments — cannot be affirmed until it is determined that the USF support payment succeeds in meeting the existing basic service needs, including those that had formerly been funded through access charges.

In addition, this problem could be exacerbated if the Commission begins setting access rates based on forward-looking economic costs as part of a prescriptive approach to reducing access rates. Having acknowledged that "[t]he revenues that would be generated if all access services were priced at forward-looking, economic cost may be much smaller,"[36] the Commission may ultimately have to establish a regulatory fund dedicated to the recovery of these costs.

IV. CONCLUSION

The Commission has undertaken to enact access charge reform intended to formulate rates that are assessed in the same manner that the underlying costs are incurred and that will permit competitive prices in the access service market. Most of the proposals apply solely to the price-cap carriers. However, PRTC,

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[36] Id. at ¶ 248.